



Disclaimer regarding the Effective date of Handbook 4000.1

- On April 30, 2015, FHA announced that it extended the effective date for the policies contained in the *Single Family Housing Policy Handbook* (SF Handbook; HUD Handbook 4000.1) from June 15, 2015 to September 14, 2015.
- This training session was recorded prior to April 30, 2015. Please note the change of the effective date of SF Handbook during the presentation.



Allowable Mortgage Parameters Module 2

*Single Family Housing Policy Handbook 4000.1
Title II Insured Housing Program Forward Mortgages
Origination through Post-Closing/Endorsement*

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FHA Single Family Housing Policy Handbook

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Introduction

- The Allowable Mortgage Parameters section of the SF Handbook provides the basic underwriting standards for Single Family (1- to 4-units) mortgages insured under the National Housing Act.



Maximum Mortgage Amount

A mortgage that is to be insured by FHA cannot exceed the:

- Nationwide Mortgage Limits;
- Nationwide Area Mortgage Limits; and
- Maximum Loan-to-Value (LTV) ratio.

Unless otherwise stated, restrictions to mortgage amounts and LTVs are based upon the amount prior to the financing of the Upfront Mortgage Insurance Premium (UFMIP)(Base Loan Amount). The total mortgage amount may be increased by the financed UFMIP amount.



National Housing Act and Maximum Mortgage Limits

- The National Housing Act established the maximum mortgage limits and the mortgage amounts for all FHA mortgage insurance programs.



Nationwide Mortgage Limits

- Mortgage limits are calculated based on the median house prices and are established for Metropolitan Statistical Area (MSA) and county.
- FHA publishes the updated mortgage limits for each calendar year.
- The limits are set at or between low and high cost area limits based on the median house prices for the area.



Requests to Change Mortgage Limits

- All requests to change Mortgage Limits in all areas will be handled exclusively by FHA's Santa Ana Homeownership Center.

Attn: Program Support/Loan Limits

U.S. Department of Housing and Urban Development

Santa Ana Homeownership Center

Santa Ana Federal Building

34 Civic Center Plaza, Room 7015

Santa Ana, CA 92701-4003



LTV Limitations Based on Borrower's Credit Score

- The Minimum Decision Credit Score (MDCS) will be used to determine the maximum insured financing available to a Borrower with traditional credit.
- The Mortgagee must determine the Borrower's MDCS, except for mortgages to be insured under Section 247-Hawaiian Home Lands, Section 248-Mortgages on Indian Land, Streamline Refinances, and Assumptions.



Borrower's MDCS and the LTV Ratio

If the Borrower's Minimum Decision Credit Score is...	Then the Borrower is...
at or above 580	eligible for maximum financing.
between 500 and 579	limited to a maximum LTV of 90%.

- This table illustrates the relationship between the Borrower's MDCS and the LTV ratio for which he/she is eligible. Borrowers with non-traditional or insufficient credit histories may be eligible for maximum financing. Refer to the Manual Underwriting section of the 4000.1.



Maximum LTV on Purchase Transactions

- The maximum LTV is 96.5% of the Adjusted Value.
- The maximum LTV is determined in accordance with the requirements listed in the 4000.1:
 - Programs and Products Section;
 - Borrower's MDCS; and
 - LTV restrictions.



Maximum Mortgage Amounts on Purchases

- The maximum mortgage amount that FHA will insure on a specific purchase is calculated by:
 - Multiplying the appropriate LTV percentage by the Adjusted Value.



Adjusted Value

- The Adjusted Value is the determined value of the property used for making an FHA Insured Mortgage Loan.



Adjusted Value: Purchase

- For purchase transactions, the Adjusted Value is the lesser of the:
 - Purchase price less any Inducements to Purchase; **or**
 - Property Value.



Property Value

Definition:

- Property Value refers to the value as determined by the FHA Roster Appraiser.



Inducements to Purchase

- Inducements to Purchase refer to certain expenses paid by the Seller and/or other Interested Party on behalf of the Borrower and result in a dollar-for-dollar reduction to the Adjusted Value of the property before applying the appropriate Loan-to-Value (LTV) percentage.



Examples of Inducements to Purchase

Inducements include, but are not limited to:

- Contributions exceeding 6 % of the Adjusted Value;
- Contributions exceeding the origination fees, other closing costs, and discount points;
- Decorating allowances;
- Repair allowances;
- Excess rent credit;
- Moving costs;
- Paying off consumer debt;
- Personal property; or
- Below-market rent, except for borrowers who meet the Identity-of-Interest exception for family members.



Case Study: Adjusted Value Purchase

Determine the Adjusted Value for Joe and Lisa Smith's purchase transaction:

- The property value is \$250,000.
- Per the contract, the seller agreed to contribute up to 6 percent towards the buyers closing costs plus an additional \$1,250 to Alliance Moving Company.



Case Study: Adjusted Value Purchase (cont.)

- For purchase transactions, the Adjusted Value is the lesser of the:
 - Purchase price less any Inducements to Purchase; **or**
 - Property Value.



Case Study: Adjusted Value Purchase (cont.)

- Purchase price: \$250,000.
- Are there any Inducements to Purchase?



Case Study: Adjusted Value Purchase (cont.)

Are there any inducements to purchase?

- Per the contract, the seller agreed to contribute up to 6 percent towards the buyers closing costs plus an additional \$1,250 to Alliance Moving Company.



Case Study: Adjusted Value Purchase (cont.)

- Yes, the \$1,250 contribution for Alliance Moving Company is an Inducement to Purchase.



Case Study: Adjusted Value Purchase (cont.)

Purchase Price: \$250,000

Inducement:
$$\begin{array}{r} - \quad 1,250 \\ \hline \$248,750 \end{array}$$

Property Value: \$250,000

Adjusted Value: \$248,750



Adjusted Value: Refinance

- Properties acquired by the Borrower within 12 months of the case number assignment date the Adjusted Value is the lesser of:
 - The Borrower's purchase price, plus any documented improvements made after the purchase; or
 - The Property Value.
- This policy applies to all FHA refinance transactions which require appraisals including, FHA to FHA refinance transactions.



Adjusted Value: Refinance (cont.)

- Properties acquired by the Borrower within 12 months of application by inheritance or through a gift from a family member may:
 - Utilize the calculation of Adjusted Value for properties purchased 12 months of greater.



Adjusted Value: Refinance (cont.)

- Properties acquired by the Borrower greater than or equal to 12 months prior the case assignment date; the Adjusted Value is the Property Value.



Case Study: Adjusted Value Refinance

- Determine the Adjusted Value for Ralph and Doreen Taylor's refinance transaction:
 - The Taylor's purchased their home 10 months ago for \$150,000.
 - Since then, they have remodeled their kitchen for \$25,000, updated a bathroom for \$5,000, and painted the full interior of their home for \$15,000.
 - The Taylor's believe their home now has a property value of \$350,000.



Case Study: Adjusted Value Refinance (cont.)

- Doreen and Ralph are looking forward to refinancing their mortgage and using their home's new property value.



Case Study: Doreen and Ralph's Refinance

- How do we determine Ralph and Doreen's Adjusted Value?
 - Was the property acquired by the borrower within the last 12 months of the case assignment date?
 - How was the property acquired?



Case Study: Doreen and Ralph's Refinance

- Was the property acquired by Borrower within the last 12 months of the case assignment date?
 - Yes, 10 months.
- How was the property acquired?
 - Purchase.



Case Study: Doreen and Ralph's Refinance

Since, the Taylor's acquired their home within the last 12 months, will the Taylor's be able to use the new appraised value?



Case Study: Doreen and Ralph's Refinance (cont.)

- Since, the Taylor's acquired their home within the last 12 months, will the Taylor's be able to use the new appraised value? No.



Case Study: Doreen and Ralph's Refinance (cont.)

For properties acquired by the Borrower within the 12 months of the case assignment date the **Adjusted Value** is the lesser of:

Borrower's Purchase Price:	\$	<u>150,000</u>	
Documented Improvements after the Purchase (+):	\$	<u>45,000</u>	
TOTAL:	\$	<u>195,000</u>	(A)
Property Value:	\$	<u>350,000</u>	(B)

Lesser of lines (A) or (B): \$ 195,000 is the **Adjusted Value**.



Adjusted Value : Refinance

- When documenting improvements made subsequent to the purchase within 12 months from case assignment date.
 - An appraisal listing the improvements and the costs made subsequent to the acquisition is not acceptable.



Inducements to Purchase

- Inducements to Purchase refer to certain expenses paid by the Seller and/or other Interested Party on behalf of the Borrower and result in a dollar-for-dollar reduction to the Adjusted Value of the property before applying the appropriate Loan-to-Value (LTV) percentage.



Non-Occupying Borrower Transaction: Max LTV

- Non-Occupying Borrower Transactions are limited to **75% LTV** if:
 - A family member is selling to a family member who will be a non-occupying co-borrower; **or**
 - The property is a 2-to 4-unit dwelling.



Summary

During this module we reviewed:

- Maximum Mortgage Amounts;
- Where to submit a request to change Mortgage Limits;
- LTV limitations based on the Borrower's credit scores;
- Adjusted Value and how to determine the subject property's Adjusted Value; and
- Clarification LTV exception policy for Non-Occupying Borrower Transactions.



Helpful Links

- FAQ Site:

<http://portal.hud.gov/hudportal/HUD?src=/FHAFAQ>

- FHA Webinar Archive:

http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/sfh/events/sfh_webinars

- Single Family Lender's page:

www.hud.gov/lenders

